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Viewing cable 09MEXICO3557, CALDERON'S REFORM PROPOSALS: THE POTENTIAL AND THE

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- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
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Reference ID	Created	Released	Classification	Origin
09MEXICO3557	2009-12-16 03:06	2011-08-30 01:44	CONFIDENTIAL	Embassy Mexico

Appears in these articles:

<http://wikileaks.jornada.com.mx/notas/en-2009-pascual-destapo-la-debilidad-de-an-y-calderon-tras-la-eleccion-intermedia>

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RHMFISS/DEPT OF JUSTICE WASHINGTON DC
RUEHC/DEPT OF LABOR WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
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C O N F I D E N T I A L SECTION 01 OF 04 MEXICO 003557

SENSITIVE
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SUBJECT: CALDERON'S REFORM PROPOSALS: THE POTENTIAL AND THE
PIPEDREAMS

Classified By: Political Minister Counselor Gustavo Delgado.
Reason: 1.4 (b),(d).

¶1. (C) Summary. President Calderon has taken few concrete steps over the last several months on the ambitious ten-point reform agenda he laid down in September. He has walked back on most of his proposals, except for a bold initiative on political reform that would establish new rule for the political game in a way that would open the way for cross-cutting reforms in other sectors. It could be a good political tactic to keep pressure on the opposition, but Calderon's success will ultimately depend on his ability to build popular support for real change and connect it to the electorate's bigger worries about the economy and public security. End summary.

¶2. (SBU) Since his state of the union address in September (ref a), President Calderon has continued to talk up an ambitious reform agenda he has pledged to pursue during the last three years of his term. The reforms touch on virtually every sector -- fiscal, energy, labor, education, telecommunications, politics -- but, up to now, have been largely a rhetorical device to urge the country to move beyond "sterile debates" and focus instead on advancing the structural changes necessary to modernize Mexico.

The Why

¶3. (C) Calderon's ambitious proposals have left many observers scratching their heads. Facing a more antagonistic Congress following the July midterm elections and a challenging economic environment driven in large part by the U.S. financial crisis, the President hardly appears to have the political backing necessary to shepherd through so many controversial reforms, no matter how necessary they may be. For example, Calderon was able to obtain only a much watered down version of the comprehensive energy reform he wanted, even with Congress weighted far more heavily in his favor. Whether or not he genuinely thinks he can now secure sufficient support to open Mexico's oil industry to private investment is unclear. The Calderon government has had difficulty implementing even the weak energy reform and the opposition parties have challenged the constitutionality of the regulations on performance based contracts in the oil sector.

¶4. (C) Recent polling data indicating a drop in support for the President may explain the return to the perennial PAN focus on the need for change. Recently released polling from respected Mexico City daily, "Reforma," and prominent pollster Consulta Mitofsky have registered a drop in the

President's approval ratings. Reforma indicated a dramatic 16 percent decline over the past several months, with 52 percent of respondents saying they approve of the President's performance as compared with 68 percent in September. Consulta Mitofsky reported a smaller decrease in approval ratings from 62.4 percent in August to 57.8 percent in November. Mitofsky ranked its 40 percent disapproval rating as Calderon's worst performance to date. Both surveys cite the economic situation and tax increases resulting from the 2010 budget negotiations as primary drivers of the drop. Approval ratings for Calderon's handling of security issues have also fallen, with Consulta Mitofsky reporting an 8.5 percent decrease from 55.5 percent in August to 47 percent in November. With a midterm election loss largely blamed on his poor handling of economic concerns and declining poll numbers suggesting that economic and related matters are forefront in the public's collective psyche (Consulta Mitofsky says that economic crisis and unemployment top the list of key perceived problems), Calderon may be searching for a new message that better resonates with voters who will be turning out for local elections in 2010 and 2011, as well as presidential elections in 2012.

15. (C) Calderon has other reasons for his reform proposals. He may also be hoping that presenting reform proposals to Congress will allow him to blame any failures to achieve reform on an intractable Institutional Revolutionary Party (PRI), take credit for any success, and potentially irritate existing divides within his primary (PRI) opponent.

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Significant tax increases and labor reform, in particular, stand to exacerbate internal PRI rivalries given the various factions and interests that make up the far from homogenous party. The markets also think the President's reform talk and proposals were at least partly to satisfy credit ratings agencies to minimize the risk of a downgrade for Mexico. This is not to underplay, however, Calderon's recognition of the real need for reforms in Mexico and his interest in seeing progress on those fronts. As he has done in the past, the President may be hoping to achieve more incremental change -- despite his more expansive rhetoric -- that, while slower, still can have an impact on the country's political, social, and economic sectors.

Opposition Strategy

16. (C) PRI insiders and opponents alike sum up the party's strategy over the next three years as, "The PRI will work with the GOM when possible to portray itself as the party that gets things done. It will vote with the GOM/PAN on popular congressional initiatives, and vote against unpopular measures." The PRI's strategy of political pragmatism -- as well as its deep aversion to approaching issues that could exacerbate internal divisions -- will limit the degree to which it will work with Calderon and his party on any sort of significant reform projects.

17. (C) PRI insider and director of the Chamber of Deputies Center for Social and Public Opinion Research (CESOP), Carlos Casillas, told Poloffs on November 24 that, of the areas for reform currently on the table, the PRI -- or at least parts of the PRI -- is more likely to support some sort of fiscal and political legislative package. Carlos Casillas, as well as PAN Senator Luis Coppola in a meeting on December 2, told Poloffs that at least some sectors of the PRI are already in discussions with the PAN on a fiscal reform package the parties will try to pass in the next congressional session (opening on February 1). They both indicated that the legislation would look to generalize the value added tax (IVA) by applying it to all goods, including food and medicine, and by slightly lowering the rate. The Finance Ministry's chief economist, Miguel Messmacher, said that PRI Senate leader Manlio Fabio Beltrones and PRI Chamber of Deputies coordinator Francisco Rojas were sending the

Ministry the same message. Messmacher said the Ministry would be willing to support such a reform as long as it improves efficiency and increases revenue. The GOM, however, will have to consider what the PRI is asking for in return. Casillas noted that the PRI may try to use fiscal reform as a temporary economic Band-Aid that will allow it to put aside controversial energy reform until after the 2012 presidential elections. Moreover, the PRI would probably try to spin the increase as the fault of the Calderon government, rather than taking the blame itself.

18. (C) That said, Mexican economist Rogelio Ramirez de la O told Econoff that it is highly doubtful that the PRI will enter into any kind of controversial economic reform debate such as energy or taxes (i.e. extending the IVA to food and medicine) before next year's state elections. He is also skeptical that a telecom reform will go through, noting how Telmex recently won an injunction allowing the company to continue charging long distance to areas surrounding Mexico City and the continuous accusations that the regulator (COFETEL) has been captured by monopolies and duopolies. In Ramirez de la O's view, Calderon needs a new and different economic agenda that would imply a new approach to the business sector and the general public, given that a consensus with a divided PRI and a weak PRD is unlikely.

19. (C) For now, Calderon seems to have focused on political reform measures as the best way to retake the political initiative, and provide some running room in other areas. His bold December 15 proposal to allow reelection at all levels of government, to provide for direct elections at the local level, and to reduce proportionality and the size of the Chamber of Deputies and the Senate, as well as other measures, will likely garner support and dominate the political agenda for the immediate future but it will be a tough slog to get it approved through both houses and through

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17 of the 32 state legislatures (septel). PRD Senate President Carlos Navarette said last week that the Senate had agreed, in addition to fiscal and regulatory changes, to discuss Calderon's proposals for political reform, including reelection for federal and local deputies, as well as mayors. Beltrones has also promoted a "state reform" package that provides for reelection. Senator Coppola told Poloffs that he was working on a reform proposal that would include indefinite reelection for deputies and mayors, while Beltrones had submitted a bill that would allow for reelection but with term limits. Revolutionary Democratic Party (PRD) Senator Tomas Torres told Poloffs he believes the passage of at least some political reform measures is probable. The Calderon government will have to raise its game if it is to get through the minefield and build public support with recent polling from "Reforma" suggesting that a reelection proposal would be unpopular with the public. Moreover, Luis Rubio, an analyst at CIDAC, told Econoff that any meaningful re-election legislation would have to significantly reduce the number of legislators elected by proportional representation (Note: The Mexican electoral system allows for a large minority of Senators and Federal Deputies to be selected from candidate lists written by the parties rather than by a popular vote.). Otherwise, the purpose of re-election is defeated, and incentives will remain those of the party rather than the Mexican public.

110. (C) In addition to energy reform, meaningful education or labor modernization efforts are likely to be stymied by political interests. Some alterations may be made around the edges, but the profound changes really necessary for Mexico's advancement are unlikely in the near term. Juan Pardinas, an analyst at the Mexican Institute for Competitiveness, told Poloff that poor public education will continue to damage the country's competitiveness, but that making the needed changes will be so disruptive to the educational system, that his colleagues working on the topic have suggested establishing parallel schools to the public institutions or pulling the

brightest students to study elsewhere, practically abandoning the idea of a wholesale transformation. Moreover, Calderon is hesitant to fully alienate the teacher's union, a key voting bloc. Labor reform also faces challenges, primarily from the PRI given the cross-cutting labor, agricultural, and political interests in the party. While the Calderon government handled the Luz y Fuerza takeover efficiently, it soured the victory with rhetoric that blamed the problem on lazy and overpaid workers. Another perceived attack on labor could easily backfire against the PAN and build support for the PRI and PRD.

Comment

¶11. (C) It remains to be seen if Calderon can retake the initiative with his ambitious political reform initiative. Up to now his reform agenda has amounted to small changes around the edges of the issues. Criticisms of Calderon, from his detractors and supporter alike, often focus on an overly acquiescent approach to negotiations with other parties which result in watered-down reforms that do not go far enough in addressing Mexico's problems. If the 2010 budget negotiations are any indication, the PRI will continue to carefully craft its actions and message to ride the coattails of GOM success and avoid blame for any failures. PRI governors wanted and received increased taxes, for example, but Calderon seems to be primarily bearing the impact.

¶12. (C) In the months ahead all eyes will focus on how Calderon's administration builds support for his political initiative. Even partial success on his bold proposal would help to break the parties' monopoly on political loyalty and hold politicians more accountable to their constituents rather than a party boss. But he will need to do better in connecting that change to the lives of an electorate, increasingly focused on and resentful of their economic problems. While Calderon's message may seem focused less on security and more on economic and other matters, his rhetoric need not imply a distraction from or reduction of his focus on security issues. The Calderon government continues to press forward with key security programs, such as federal police reform, and appears more committed to taking on

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deficiencies in its institutions and interagency coordination system. At the end of the day, a more economically, institutionally, and politically sound Mexico will be the strongest weapon against the organized crime threat. End comment.

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